

COMPETITION AND POLITIZATION OF COMPETITION¹

Tezer PALACIOĞLU²

1. INTRODUCTION

Competition which can be described as; “the struggle of firms or sellers in the market to attract buyers independently to achieve a specific business goal such as profit, sales, market share”. (OECD Glossary) or “the race between undertakings in the markets for goods and services that enables free economic decisions” (Act 4054, Art.3)

Is the engine of development and progress in every field, individual and social development as well as success in foreign trade. The Turkish automotive sector before and after Türkiye's customs union with the EU can be given as an example of the role of competition in development and increasing welfare. The sector -of which limited low quality production expressed in tens of thousands per year with a small number of oligopolistic assembly plants, for the models that Europe abandoned decades ago- used to be protected, has evolved to become one of the most important sectors, in terms of production capacity, employment and exports, with the opening up to competition in the EU market after 1996.

Competition can flourish in a free and protected economic environment for entrepreneurship, contracts, property, organization, travel in addition to political environment with fundamental rights and freedoms such as expression of thoughts, electoral rights. It is imperative that the rules and restrictions be ensured within the legal order to preserve competition. Competition should be protected by law, *to prevent* agreements, decisions and practices preventing, distorting or restricting competition and abuse of dominance by the undertakings dominant in the market. (ibid, Art.1)

To be able to mention a competition environment, it is essential that the number of enterprises operating should be big enough, not to allow any company to have a dominant position in the market or to share the market. Competition, which requires the presence of at least two elements competing in the same field in definition, can be divided into macro and micro in general terms. While the competition between countries is regarded as macro competition between companies is regarded as micro type. Macro and micro competition positively supports each other. In fact, it is the international competing firms that determine the power of the countries. Similarly, the determinant of the competitive power of companies is the characteristics of their own countries. (Porter M, 1990)

EU Commission defines international competitiveness; as "the ability of the economy to provide a high and increasing standard of living and a sustainable high level of employment" with the increase in productivity. The essential factors leading this productivity increase are listed as follows;

¹ This study is generated from the PHD thesis namely “Dünyanın Yeni Rekabet Sahnesi: Gelişen Afrika”.

² Advisor, İstanbul Chamber of Commerce, tezer.palacioglu@ito.org.tr, ORCID: 0000-0002-0388-1750.

- Market reforms to accelerate investments,
- Fair competition environment, supports to innovation by intellectual property rights, R&D investments, formal and vocational education and human resources development,
- The capacity to transfer innovations into products,
- Implementation of new business methods with the adaptation of information and communication technologies (Bedir A, 2009)

It is clear that being strong in competition depends on various main and auxiliary factors. However, one of them is the head of all others; “knowledge/information” Everything regarding production and marketing the resources used for production, the production facility, target consumers, storage, transportation, marketing, distribution, financing of the production, settlement of disputes etc every decision should be made by knowledge based evaluation. Lack of knowledge and uncertainty about the market and competition conditions cause hesitancy to make decisions about the enterprise, and as a result, it prevents entrepreneurship and the development of trade. Discovery of market opportunities by entrepreneurs is the key to market advancement and internationalization. There are always opportunities as markets are not fully explored and their needs are not satisfied. Market opportunities require discovering the unknown (Kirzner, I. M 1973).

2. BASIC THEORIES RELATED TO COMPETITION IN INTERNATIONAL TRADE

International trade is a complex and dynamic environment depending on political, social, economic, seasonal, periodical and many other reasons, under the rules applied by each of around 200 countries or within the framework of the legal and physical conditions, with millions of products and services traded in 96 chapters' reaching \$44,2 trillion in 2021. (Trademap). Unexpected factors such as the "pandemic" we have witnessed, may change many of the known rules and practices of this structure, which contains so many variables, so make the structure even more complex.

Therefore, it is not possible to explain such a wide and deep subject with a single theory. Certainly, there might be cases for which a particular theory would be enough to explain. However, it is not correct to think that a single theory can be applied to every product, condition, time, country and region.

2.1. Absolute Advantages

It is widely accepted as the most important theory that pioneered the formation of economics and modern foreign trade theory, as put forward by Adam Smith in his work "The Wealth of Nations" written in 1776. At the time it was written, the mercantilist thought, which was mostly valid in the world, argued that the world's wealth is fixed, foreign trade is a "zero-sum game" and that the gain of one country is the loss of the other. According to the Absolute Advantage Theory, which explains the importance of competition and free trade in the simplest way on the contrary says, when the economy is left to its own course in the perfect order of nature, where there is no human intervention, rational economic individuals by following their

individual interests with the instinct of competition would carry the economy to the optimum point and welfare would increase.

Standing out in the competition requires efficiency in production, resource allocation and innovation. Firms lacking the power to influence market prices in a competitive environment will be compelled to have low costs. Firms must differentiate from others in order to survive, and in order to differentiate, they must have a better product, even a new invention, that is cheaper, provides more and longer benefits to the consumer. (DPT, 2000)

At international arena, it has been put forward that the level of foreign trade welfare can be increased by specializing in the goods that each country produces at a lower cost than the others, for which it has absolute production superiority, by exporting them and importing the ones that can be produced more expensively. The free market is the main decision maker in which commodity country should be specialized. It is possible to produce more goods in a way that will increase the welfare of both countries in this open foreign trade model, against the understanding of mercantilism that is closed and considers imports as lost.

The general assumptions of this theory which holds free trade in the center are; homogeneous calculation of the value of the goods, full employment in the labor market, no exchange rate differences, equal amounts of resources (land, labor, capital) for both trading countries, zero transportation costs and no money usage but exchange of goods for goods in international trade. (Yüksel E, Sarıdoğan E, 2011) Absolute advantages are classified as natural or acquired. *Natural absolute advantages* can be summarized as the abundance of production factors eg;

- owned underground and above-ground natural resources (oil, gold, copper, wind, solar, hydro energy resources, sea area that will be an advantage for fish, beaches that will be an advantage for tourism, the existence of historical monuments etc),
- geographical location (proximity to markets, openness to sea transportation, presence of central ports, canals etc),
- climatic conditions (allows various crops to be grown, such as hazelnut, olive, banana, cotton),
- cheap and abundant labor (such as in China, India) land (fertile, large irrigable land)

Acquired absolute advantages; on the other hand are those which are not natural, but gained through specific and superior efforts or acquired throughout history by the adherence to concepts such as; morality, democracy, fundamental rights and freedoms for citizens, intellectual and industrial property in the society, the cultural structure that provides opportunities for research and development and entrepreneurs, the importance given to education and training, sufficiency in transportation, communication, institutional, financial and technological infrastructure, know-how in engineering and traditional production (Swedish ironwork, Norway-fishing, England-finance) and so on.

The best example of the superiority gained with the system in which the employees are included in the governance and the "Kaizen" culture based on continuous improvement is Japan. Japan has no natural sources. Moreover, it has a limited land most of which is mountainous and unsuitable for agriculture compared to its high population. It is located on one of the most

dangerous earthquake belts. During World War II, major cities and so its industry and infrastructure were destroyed by conventional and worse by atomic bombs. The point it has reached today can be explained by the culture of work, discipline, education, training and investment in technology that prioritizes the country before the individual.

Absolute advantages are not indefinite and certain. Over time, it may be lost due to decrease in the natural wealth, technological changes or new discoveries in different geographies that will reduce its importance. For example, the emergence of oil ended coal's; the emergence of electricity ended kerosene's dominance for lighting. Internal combustion engines working with mineral fuels have taken the place of vehicles moving with coal, wind, human and animal power, but today they have started to lose grounds to electric motor vehicles.

Absolute advantages due to the labor force as a result of high population can easily turn into a disadvantage with aging or unqualified, unproductive workforce, increasing social expenditures and unemployment.

The point reached by brands such as Samsung and Hyundai, supported by S.Korea's policies that provide economies of scale and transition to new technologies, is a good example. In mobile phones Samsung has surpassed its Japanese rivals, such as NEC, Toshiba, Hitachi etc. and has become the most important competitor of US giant Apple. Airbus, which was founded in 1970 in partnership with Germany and France as one of the most important projects of the European Union, later joined by England and Spain, has come to a position to compete with the US giant Boeing, that was founded in 1916.

2.2. Comparative Advantages

“How trade will sustain between two countries if one country is superior to the other in every field?” is the question that absolute advantages theory cannot explain. 40 years after Smith's theory, Ricardo's theory of comparative advantage answered. “The main thing is not absolute but comparative advantages. The *ratio* of advantage is decisive.

Countries should specialize in products they can produce more competitively with the resources they have and import products in which they are less efficient and therefore have higher cost and less competitive power in order to refrain waste of resources. If each country allocates its resources to products in which it is more competitive, each country will gain, as it will have more products if it does not import but produce itself. Ricardo, like Smith, bases product cost on labor. Likewise, labor is fully mobile within the country, fully immobile between countries and full employment is provided (Seyidoglu H, 2015).

2.3. Factor Endowment

Classical theories explain the cost, and therefore competition, depending on the natural resources and labor, but does not explain the international productivity differences in labor. According to Smith, in the era of primitive society without capital accumulation and private property, the only factor determining value is labor. Since it is possible to command labor in the era of industrial capitalism, where there is capital accumulation and private property, value is collectively created by labor, capital, and land. Ricardo, on the other hand, defines value not as the labor that a commodity can buy, as the direct and indirect labor (capital)-time it contains.

With Heckscher's article of 1919 and his student Ohlin's book of 1933, this deficiency has been corrected. Also known as the *Heckscher-Ohlin Theory*, this theory states that the factor endowments of all countries are different from each other and the produced goods differ in terms of factor or relative factor intensities. Based on this assumption, it is argued that the country has a comparative advantage in the goods using the production factor in which it is heavily endowed. The main assumptions of the theory are that a good is produced with the same production function in all countries, that there are constant return conditions in production, the demand conditions of all countries are similar and that labor is fully mobile between industries. Factor Endowment Theory pioneered some theories that came after it.

The Stolper-Samuelson Theory - According to the theory developed in 1941, free trade raises the real income of the factor in which the country is abundant, and decreases the income of the scarce factor. Protectionism, on the other hand, is in favor of the factor that is used extensively in industries competing with imports. When a customs tariff is imposed on imports in a country that exports capital-intensive goods and imports labor-intensive goods, the prices of imported labor-intensive goods rise relative to the prices of capital-intensive goods leading in domestic production. Therefore, the real wages of workers working in the domestic equivalent-substitute production of labor-intensive imported goods increase. In this case, while the domestic production of the equivalent of the goods that are subject to the tariff increases, the production of the exported industrial goods decreases. Since workers' wages increase faster than interest, they become cheaper and substitute for labor that has become expensive. (Stolper, W. Samuelson, P. 1941)

Factor Price Equalization Theory: According to the theory developed by Samuelson in 1948, free trade equalizes international factor prices by raising the factor prices that countries have in excess and reducing the scarce ones. International factor mobility has a similar effect.

Rybczynski Theory: According to the theory published in 1955, in a two-commodities and two-factor production foreign trade model, under full employment condition, when the supply of a factor is increased, the production of the commodity that uses this factor intensively increases, on the other hand, the production of the commodity that uses the factor intensively of which supply remains constant decreases. (Rybczynski, T. 1955)

2.4. Labor Skills Theory

After years in the direction of the verification test of the factor endowment theory, Leontief, who carried out a study using 1947 world trade data, revealed that the US economy, which is expected to export more capital-intensive goods, rather exports paradoxically labor-intensive goods and imports capital-intensive goods.

The reason he found to explain this contradiction is that US workers are more skilled compared to workers in other countries in a way that one U.S. workers' production equals to that of three foreign workers. When approached with such a thesis, it becomes clear that the USA is actually a labor-rich economy, specializing in high-tech products that require qualified labor.

Thus, while the factor endowment theory is useful to explain inter-industry trade between unskilled labor-rich underdeveloped countries and capital-rich developed countries,

the intra-industry trade between capital-rich developed countries that take the lion's share in world trade requires different theories for explanation.

One of these is the "*Labor Skills*" theory, which is based on Leontief's evaluations, developed by Keesing and Kenen in 1965 and 1966, and is also known as *NeoFactor Endowment* because it evaluates the Factor Endowment theory differently.

According to the theory that connects the cause of "intra-industry" trade between developed industrial countries to the differences in skilled labor, skilled labor-intensive goods are similar to capital-intensive goods. Qualified labor-rich countries will naturally gain competitiveness by specializing in the production of goods that use this factor intensively, and their exports will be in this direction. Keesing states that qualified workforce is an important factor not only in foreign trade but also in growth. (Ozel H, 2012)

2.5. Creative Destruction Theory

Austrian economist Schumpeter defines capitalism as a mechanism that constantly renews itself by destroying itself in his work titled "Capitalism, Socialism and Democracy" published in 1942. Entrepreneurship is the most important factor that changes the order with innovation and, in a sense, transforms the industry. With innovations that change the composition of the factors of production, the entrepreneur can survive and increase his profit. According to the *Creative Destruction theory*, it is not possible for entrepreneurs and economies that cannot innovate to gain competitive power. (Swedberg R, 2003)

Innovations emerges with;

- (1) the production of a new product that has not been offered to the consumer before, or the production of a known product with innovative quality,
- (2) applying a new method in production,
- (3) the emergence of a new market that does not exist,
- (4) the use of new raw materials and semi-finished components in production,
- (5) realization of a new administrative and physical structure

Innovations can either be developed through legal means such as research, development or the purchase of patents and intellectual property rights or vice versa through illegal and immoral means such as imitation, theft of intellectual property and industrial espionage.

2.6. Technology Gap

The theory, also known as the imitation lag, was developed by Posner in 1961 and is particularly useful in explaining trade within the same industry. According to this theory, countries that develop a new product or production method by being the first to own the technology get ahead of the competition with these innovative technology advantages and become the first exporter of this product.

The first target in the export process is the developed countries that have the capacity to develop same technology. Before similar technology is developed, market share is tried to be taken. The next target is naturally developing countries. The first exporter country that develops the technology and the product, uses intellectual property rights as a competitive weapon to prevent other countries from developing the product during the patent period or gets a price

advantage by obtaining a patent fee which increase the cost of the countries paying the patent fee.

However in time, production place of the innovated product, manufacturers and so exporters generally shift to developing countries due to various reasons such as the expiration of patent rights, the sale of technology to countries that follow behind and the transition to new technology and products. The innovative country, which skims the market until the technology gap is closed or the product is imitated at more competitive prices with advantages such as cheap labor, cheap energy and economies of scale, pursues a new invention with high added value. (Fagerberg, J.1987)

2.7. Product Life Cycles

The theory, which can be interpreted as the continuation and further development of the technology gap theory, was expressed by Vernon in 1966. It explains the life span of any product, starting from its invention to its disappearance.

Developed countries are the attraction point of such products and the first encouraging markets for production, with consumers who have high income levels and can therefore meet the development costs of the innovative product offered to the market.

In the *invention-launch period*, when investment expenditures are the highest, production is limited in order to identify problems and make improvements with feedback from consumers, and within the framework of low demand. Production is located at the closest place to the consumers, namely the domestic market, in order to decrease the cost and reach the consumer and to receive feedback as soon as possible. Profitability is also low due to low sales volume. Since the product is new and has low recognition yet, there is little competition, sometimes not (Seyidoglu, ibid).

In the next stage, *the growth period*, investment expenditures are still high, although not as much as in the invention stage, with the effect of efforts to promote and improve the product. Although sales volume has started to increase, profitability is low due to high expenses. In this period, competitors became aware of the product and started to work for imitation. Export starts after the sales for the domestic market. With the domestic consumption of the product, its production increases. With the following export demand, the production increase rate is much higher and the product becomes ready for mass production.

The third stage is the *maturity* period. Production is accelerated. During the maturation period, trial and error learning in production was completed and the *standard product* stage was started. The inventor company may find it profitable to give a domestic or foreign production license and/or the production may be shifted to different regions and countries in order to reduce the production cost. (Ozturk N, 2003)

After the maturity period in which the sales volume and exports are the highest and the investment expenditures are the lowest, the production of the inventor company also decreases as a result of the entry of the imitative new manufacturers into the market with low cost advantage so much so that the loss of the domestic and foreign markets in this highest competitive environment might cause it become dependent on imports.

The dizzying speed experienced in post-2000 technologies and the increase in the reaction and product development capacities of competitors have shortened the product lifespans in almost every sector, especially in the electronics and information technology sectors. Many world giant companies such as Kodak, Polaroid, Nokia, Ericsson, Compaq, Nortel, which could not keep up with this speed and lagged behind the technological change, went bankrupt or changed hands.

While the frequency of model changes in automotive factories in Türkiye for example, which was under protection with customs tariffs before the Customs Union, was about 15-20 years, it is observed that they are forced to "make-up" every 2-3 years and "deep change" in design every 4-6 years in line with the developing competition and increasing consumer demand.

One of the best examples of this theory is the production process of vehicles known as the Tofaş Bird series. The chassis platform of Serce, Dogan, Şahin and Kartal models, which were adapted from the Italian Fiat's Regeta model and produced in Türkiye until the end of 2001, continued production in the form of assembly until 2009 by Nasr company in Egypt, and by Holland Car company in Ethiopia until 2010. As can be seen, the production, which ended in Italy in 1986 and in Türkiye in 2001 continued until the end of 2010 in Africa.

2.8. Economies of Scale

Scale is an expression used to indicate the production capacity of an enterprise or an industry. According to this theory, by enlarging production facilities and increasing production volume, a company can lower its average costs and so increase its revenue. This approach is mainly used by multinational companies and the ex Soviet Bloc within the framework of the division of labor between the countries for excess production for all the member countries and then modeled by China for global production. It is very difficult for companies that produce the same products on a much smaller scale to compete unless there is a real difference in their products or such a perception by the consumer.

If there is a decrease in costs due to the company's increase in its own production scale, there is an internal, if this decrease comes with the increase in scale of the sector, external economy of scale is in question. In internal scales of production, costs decrease as the design, molding, marketing and fixed costs per unit decrease. Two different sectors such as automotive and toys, representing capital and labor intensive production, can be given as examples. With the beginning of the 2000s, there is a consolidation for economies of scale with acquisitions or mergers between international automotive companies. . In order to reduce costs, today same engines can be used in different models of some companies. In toys, China, which has a abundant labor and cost advantage, has also reached the scale economy and become almost the only toy supplier in the world today.

Information and semiconductors technology developed in the USA, Silicon Valley and Taiwan are examples for external economies of scale. Italy's Murano (Venice) region for glassware, Türkiye's Bursa and Sakarya line for automotive are world-renowned examples. Depending on the high demand, the natural or state-encouraged organization of the main and

sub-industry needed by the sectors in the form of clusters led to the development of economies of scale with the competitive opportunities they provided;

- Clustered sectors, whose employment opportunities increase with the increase in production volume, function as a center of attraction and as a result, more qualified and cost-effective workforce can be found,
- Focusing on specialization and division of labor encourages new technological, administrative and financial searches that will improve the production process with more rapid and high quality production,
- Ability to create a stronger pressure group through cooperation between companies in the cluster and non-governmental organizations such as business organizations, and to analyze cost factors such as supply, logistics, communication and packaging under more favorable conditions,

3. COMPETITIVENESS AND CURRENT APPROACHES IN INTERNATIONAL TRADE

3.1. Competitiveness Indicators in International Trade

In addition to the studies that examine the competition in international trade usually at the firm and national level, there are some others that also examine it in the sectoral and product level. The definition in the Aldington Report of the Committee on Overseas Trade of the British Camera of Lords (1985) is as follows: A firm is competitive if it can produce goods and services of the highest quality and at cheaper prices than its national and international competitors. Competitiveness is synonymous with the firm's long-term profit performance, its ability to compensate its employees, and its earnings for its owners. Since this is the definition, the concepts of cost, price and profit, which are measurable in quantity and indeed quality, gain importance in the competitive power of the firm. (Buckley P.J, Pass C.L, Prescott C, 1988)

The competitiveness of individual firms naturally determines the competitiveness of the country. A nation's competitiveness is its ability to create, produce and distribute goods and services in international trade, along with its ability to provide increased earnings on its resources.

The question of "what are the indicators of competitive performance," might differ if the country, industry, company and product headings in competition are evaluated separately. Despite these different approaches in various upper and lower headings, when it comes to international trade and competition, *export market share* is the common answer to the main indicator.

However, it remains incomplete as companies often do not show sales through their foreign subsidiaries or the share of foreign licensed product sales. Besides, although the export share is important, the structure and added value of the products subject to export are even more important. Undoubtedly, the low technology export structure does not indicate high competitiveness on a country basis, but on the contrary, its low level of competitiveness. The destination to which the export is directed should be evaluated within this framework. It is clear

that the exports to the underdeveloped countries and the market share obtained there, cannot be a good criteria in the measurement of global competitiveness. In addition to export, which is an income-generating-foreign exchange-earning activity in foreign trade, there is import on the other side of the coin. Therefore, in order to make a realistic assessment, the *foreign trade balance* should also be included in the assessment.

Other indicators such as easy access to production factors, cost, price, efficiency, technology, economy of scale, quality and profitability are integrals that serve the same purpose; *take a share in the world markets by producing better and cheaper*. Indeed, it is the organizational structure and internationalization commitments of the company led by the management and owners which enable the employees to take action towards this target.

Table 1. Competitiveness Indicators in International Trade

COUNTRY	INDUSTRY	COMPANY	PRODUCT
Export market share	Export market share	Export market share	Export market share
Share in world production		Export dependency	
Foreign trade balance	Foreign trade balance		
Rate of export increase	Rate of export increase	Rate of export increase	Rate of export increase
Profitability	Profitability	Profitability	Profitability
Comperative advantages			
Cost competitiveness	Cost competitiveness	Cost competitiveness	Cost competitiveness
Productivity	Productivity	Productivity	Productivity
Price competitiveness	Price competitiveness	Price competitiveness	Price competitiveness
Technology indicators	Technology indicators	Technology indicators	Technology indicators
Access to resources			Quality competitiveness
Commitment to international business	Commitment to international business	Commitment to international business	
Government policies		Ownership advantage	
Education		Marketing aptitude	
		Management relations	
		Closeness to customer	
		Economies of scale	

Source: ibid 179-182

3.2. New Theories and Approaches in Competition

3.2.1. Reseource Based Theory

The "industrial organization" theory, which was widely accepted in 1980s, raising the ideas that;

- the competitive advantage of the enterprises is bound to external factors;
- general structure of the industry the companies are in, is the main factor;
- the companies in the same industry are homogeneous,

were removed from the agenda in the 1990s when free trade and globalization entered a rapid development process and fast and active entrepreneurship came to the fore. It has been replaced by the "resource-based" theory that later evolved into total quality management. which argues that businesses are not homogeneous, but heterogeneous, and (Barney, J, 1991)

Accordingly, even if they operate in the same industry, businesses have different resources, and both internal and external factors affect competitiveness. Businesses gain competitive power to the extent that they can transform their unique resources into distinctive capabilities. For a sustainable competitive advantage, businesses should determine their internal strengths and weaknesses with a realistic understanding, in line with the resources they have, and create strategic action plans by evaluating the external opportunities and threats in the industry in which they operate.

Company resources determine the limits of the company capacity. Resources consist of tangible and intangible assets, organizational capabilities and financial resources that the firm owns or controls, and that it can add to the goods and services it produces through various transactions and other tools. There are also studies that define company resources in different categories and reduce them to physical, financial and intangible resources. A broad classification is as follows; (Amit, R. Schoemaker, P. 1993)

- Financial Resources: the size and type of capital, reserves, cash, in-kind, intellectual capital, debts, etc.
- Physical resources: location, production facility, distance to raw materials, transportation facilities etc
- Human Resources: personnel and management,
- Technological Possibilities: based on product and production method, patents, experiences,
- Reputation: reputation in the market and in the eyes of consumers, brand(s), customer loyalty, trust it provides,
- Organizational Skills: administrative skills,
- Communication and Networking; with consumers, stakeholders, suppliers, public and local governments,

An ability that a company poses can be considered as a core competence only if it creates value for the consumer and differentiates it from competitors and the products and services they offer. In today's world of information age, "*information*" has become the most meaningful resource. It is possible to have traditional factors of production, and furthermore, it is possible to rent or purchase, so reach them in some way. These sources do not make sense on their own but with the activating factor; "knowledge/information". (Gules, H, Özilhan D. 2010)

3.2.2. Competitive Advantages Theory

Firms at micro, countries at macro level need to have a sustainable competitive advantage to ensure the profit and welfare. It is possible to summarize the competitive advantage in international markets as price and quality in the center and then non-price factors such punctuality in delivery and after-sales services. In other words, it depends on cost and being different. Indeed, competitive advantage arises when competitors can offer benefits that are not available or providing the existing ones at a lower cost and/or in a more satisfactory way.

The theory of competitive advantages was discussed in Porter's book published in 1990, entitled The "Competitive Advantage of Nations". In this study, within the framework of the

question of how some nations and some industries are more competitive than others, the creation and maintenance of competitive advantages is evaluated.

Based on 1985 data, 5 of the G7 countries excluding France and Canada, that have a huge share in the world economy (USA, Japan, Germany, UK, Italy), 2 Scandinavian countries (Denmark, Sweden), a rapidly developing “Asian Tiger” (South Korea), logistics centers for Europe (Switzerland) and for Far East and China (Singapore), a total of 10 countries which realized 50% of the world's exports in 1985 were evaluated in this model known as the “diamond model” taking into consideration of 100 sectors and their export market shares in the world and with case studies.

In this model, which links the competitiveness of a country to *local conditions* within the framework of operating companies, auxiliary sectors and support elements as well as macroeconomic indicators such as exchange rates, interest rates, budget balances, cheap and abundant labor force, rich raw material resources, government incentives facilitating exports and restricting imports are evaluated, finally 4 top effective factors interacting with each other are listed; (Porter M, 1990)

- Company structure, strategy and rivalry,
- Factor conditions (skilled labor, developed infrastructure, suitable land, information resources, etc.),
- Demand conditions (the size and progress of the demand for the manufacturer's product and service in his home country)
- Status of related and supporting sectors (internationally competitive),

The role of the *government and chance* factors are also supportive factors. The government is an indirect but important factor in the creation and development of international competitiveness for sectors, not by trying to create competitive advantage, but by creating appropriate conditions within the framework of the four main components of the model and by being a regulator. Chance factors, on the other hand, are events such as natural disasters, wars, natural resource discoveries, which cannot be controlled but can affect sectors and countries and change their competitive positions.

The sectors where the countries will be most successful are those in which they are most productive under 4 headings within their diamonds. The specific situations of the sectors are also factors. While continuous and rich investments are effective in sophisticated and information-intensive sectors, the availability of labor and local raw materials may not be of great importance, since international supply opportunities in this regard can be met from multi outsources.

According to Porter's work, the only meaningful measure of competitiveness is “*productivity*”. The main purpose of a country is to provide its citizens with high and increasing living standards. It does so with its capital and workforce. Productivity is the value of the product produced per unit capital or labor force. It is based on the product features and quality, which will determine the price of the products and the efficiency in their production. Productivity is the main factor that determines a nation's standard of living and per capita income in the long run. The efficiency of human resources determines the wages of the

employees, and the production efficiency of the capital determines the earnings to be obtained. A nation's standard of living depends on its firms achieving high efficiency in production and increasing this efficiency over time. The way to increase it is to increase the quality of the product, add the demanded features in the product, improve the product technology and speed up the production efficiency. The important concepts of today for companies are merger, partnership, strategic cooperation, transnational globalization (Porter M, *ibid*).

3.2.3. Double Diamond Theory

It is the approach that criticizes Porter's diamond model because of ignoring international connections and evaluating only the data within the country and the firm, and tries to develop this model by emphasizing the importance of multinational companies. (Rugman, A. D'Cruz J 1993) In the double diamond theory, it is stated that the existence of multinational companies and the foreign direct investments they attract with their movement are very important in the competitiveness of countries.

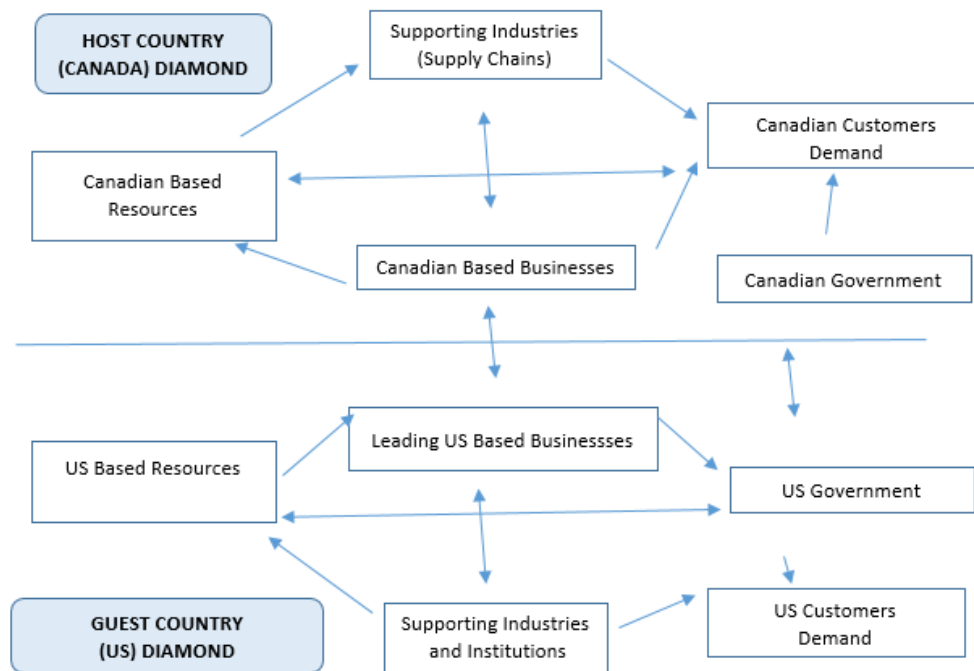
Dunning argues that the phenomenon most affective in international trade is the increasing level of internationalization, and draws attention to the fact that the strategies and decisions of companies are also affected by their competitors. In international trade, governments have increased their influence in directing investments with the incentives they provide.

In addition, technology has gained prime importance in internationalization with its role in cost reduction, with its structure that can easily cross borders and cause strategic collaborations as well as the need for much faster technological development in order to meet changing consumer demands. (Dunning, J. 1993)

This study, by evaluating specifically Canada, tries to explain the great integration and cooperation with USA within the framework of the North Atlantic Free Trade Area (NAFTA), claiming that it is not possible to explain it with a single diamond, but a double diamond instead.

The protection policies which became useless, with the customs union and free market environment after NAFTA, forced Canadian companies adapt to this new changing situation and develop strategies to compete with an economic giant like USA. The new free trade zone has also brought changes in the demand structure of Canadian customers. (Çivi, E. , Erol, İ. , İnanlı, T. & D. Erol, E. 2008).

Figure 1. North America Diamond



Source: Rugman, A. M. ve J. R. D'Cruz (1993)"The Double Diamond Model of International Competitiveness: The Canadian Experience" Management International Review, Vol.:33,2 p.17-39.

The model was later developed with the additions made by Cho, then Moon, and finally by Kim (2006-2008), and this time, by adding international human factors, the *dual double diamond* model was introduced.

3.2.4. New Trade Theory

This theory, which was developed by Krugman in his various studies between 1979-91 and evaluated by various researchers, states that even if countries have similar technology, factor equipment and cost, they can gain through free trade by making product differentiation, by reducing their internal economies of scale and average costs. (Krugman P, 1993)

In order to get rid of freight and transportation expenses, which he defines as *iceberg* expenses, companies will prefer to produce in the geography that they consider as the largest market for their own trade. In a world of monopolistic competition and product differentiation, the mobility of factors of production will encourage migration for clustering in the most favorable geographical environment (Nobel, 2008). The region that Krugman gives as an example for clustering is the US manufacturing belt that emerged in time spontaneously between the mid 19th century till 1960s, driven by demand, increasing returns to scale and reduced transportation costs. E.g. increasing returns to scale stands as the most important reason for the development of automotive in Detroit and information technologies in Silicon Valley.

Krugman attributes the importance of geography in economics mainly to three reasons. First of all, the *geographical location* of the economy is of great importance within the home country before international trade. The distribution of production among regions is as important as international trade, especially in countries such as the USA, which are spread over a wide geography. Secondly, it is emphasized that the *difference between international trade and*

regional trade has become foggy, based on the example of free trade areas created in the world. It is clear that, the "relationships between individual member states" which used to be important in international trade, are now much less effective, as a result of the development of Europe into a single market with the free movement of capital and labor in 1992. Beyond these two reasons, the most important function of the geographical cluster is to act as a *laboratory for the development of trade*, both intellectually and empirically.

World economic geography is shaped by industrial clusters that show competitive success, in which related and complementary industries and institutions located in a certain region are concentrated and supported by science-based institutions such as universities and technoparks.

A feature of the theory is that growth and competitiveness, technological progress and scientific development and practises are considered at the center. (Lam T, D. 2015) In addition to many different factors, some countries come to the fore in new product development and inventions, depending on their approach to science, the level and quality of research and educational institutions. The main point is the *diffusion of technology to companies*, which will be used as the most important input of production. Therefore, companies are highly recommended to invest in research and development, in addition to other production factors, to ensure and protect efficiency in production.

3.2.5. Game Theory

This theory, developed in a war environment by mathematician Neumann and economist Morgenstern in the early 1940s, aims to solve the strategic decision-making mechanism that can be generalized from war, to the economy. It examines the conditions under which, in a given game, the players (decision makers) in the event can make the most beneficial decision against other players. Although it is widely known as mathematical theory, it is an important approach that can be applied in every field, including economics.

Accordingly, each player strives to achieve the highest benefit for themselves. No player's strategy alone or independently yields a result. By responding to each player's move, the equilibrium (Nash equilibrium) is reached, which has different results for everyone, in which none of them can change the whole of the strategies, increase their own gains unilaterally. Different strategies are determined according to the situation, the strategy the competitors can choose is tried to predicted with various probability calculations and so countermeasures are prepared for various alternative scenarios. (Ozari C, Turan K, Ulusoy V, 2017)

If international trade is accepted as a game, the following possible in and outputs are needed to be calculated;

- Who are the players (firms, consumers, production and consumption opportunities, environmental conditions affecting the game, the playground),
- Which game actions are available to players,
- With which move they can react to the moves of other players,
- What possibilities may arise as a result of mutual moves,
- What is the value of each move for players and on which move they can agree,
- Which player knows what,

- The importance of acting quickly and decisively by calculating the risk and returns correctly,

Creating the right strategy, is directly proportional to the information possessed. In addition to the right move, the timing of the move is also an element that will put it forward in the competition.

3.2.6. Blue Ocean Strategy

In a study published by Kim and Mauborgne in 2005, the competitive environment is depicted as either a red or a blue ocean. The red ocean defines today's fierce competition. Competition in known industries for similar products with small differences is likened to the never-ending and demanding struggle of a large number of predators in the same ocean in pursuit of the same prey (consumer). In order to seize the largest share of the prey, tactics must be constantly developed, the movements of the opponents must be observed, their attacks must be repulsed. Only the fittest have a chance to survive in this ocean, it is difficult and costly to live.

On the other hand, there is a part of the ocean where there are no competitors and abundant prey that can be easily reached, discovered by one of the existing hunters (entrepreneurs) or later hunters who came to the ocean, which is defined as the blue ocean. Unbeatable, the hunter can focus on capturing as much of the prey as possible, without developing new tactics for the hunt, without engaging in a life-or-death battle with other hunters, but only in this deep, vast and as yet unexplored part of the ocean.

A similarity is found between the strategy and a saying of the famous Chinese war strategist Sun Tzu; *“Those who leave the enemy armies helpless without a fight, are the best warriors.”* It is possible to divide the strategies as *collaborative, reactive, offensive and defensive* when companies compete. The blue ocean theory refers to moving away from the red oceans, where companies struggle with their competitors with their efforts such as product development, product differentiation, market segmentation and positioning, and where price competition is fierce. The way to get rid of the competition, in which the loser will first shrink and then disappear, is to create new value concepts. It requires understanding what the consumer, the king of the market, wants and does not want, understanding his needs, being open-minded and open to innovations, low cost, and higher service quality than competitors. (Ağraş S, Atbaş F, Şeyba E, 2017) The strategy outlines reaching the blue ocean under 3 main headings;

- 1) Instead of competing in the existing market, entrepreneurs create a new market that cannot be competed,
- 2) Entrepreneurs position their products and services in a way that makes competition meaningless,
- 3) Capturing the market by creating new demand, instead of struggling to get a share from the existing demand,

The distinction between the red and the blue ocean is not so sharp. A blue ocean can easily turn into red if the efforts of the competitors are not followed, the innovation is not

constantly pursued, and the current location is abused with excessive demands from the consumer.

4. MISSING POINT IN EXISTING THEORIES; UNDERESTIMATED ROLE OF POLITICS AND PERSONAL AMBITIONS OF LEADERS

Despite some recent theories especially after Porter mentioned about the role of the government to some extent, I believe it is still far behind to indicate the real role of leaders - especially the authoritarian ones- and the personal relations between them. Often politics formed by such leaders prevails the common accepted economic realities. Need for international support in United Nations or need for the voters are the driving force behind many decisions.

This is obvious in today's world. Especially in the early 1990s, the fall of the Soviet Bloc and Berlin Wall removed the Order, which was created after World War II and globalization gained momentum. The 1990s and beyond have also witnessed China's rise once again which used to be the center of World economy for tens of centuries but lost its position to West with the industrial revolutions.

Not only China but also the old empires of history like Japan, Russia, Türkiye, Iran and even India are in this power struggle to maintain a strong place to revive their historic ambitions against United States (USA), the European Union (EU) and some Arabic satellite countries which are moving with them in their orbit.

The economic decisions are taken on the grounds of these conflicts to contain each other in areas of interest. USA's ex president Trump played this game explicit to stop China any where, in the cost of harming whole global trade by imposing high duties on Chinese products. Again USA and its close ally France have tried to prevent Russian and Turkish presence in Middle East and Africa, especially in Syria, Libya, Sub Saharan. and Mediterranean.

The ongoing Ukrainian-Russian war has resulted a global energy and food crisis beyond thousands of casualties. Sanctions imposed on Russia has brought counter Russian retaliation which threatens to shrink European economy mainly that will cause a chain reaction in many others which have close ties with it. Moreover sanctions and counter measures not only slow global economy but also cause formation of new economic and military blocks against each other which finally might lead to a III. World War.

The impact of politics and leader relations can be seen in the development of Turkish trade in the last two decades. Here are some findings;

Turkish trade with Russia which was slightly over \$5 billion in 2002 jumped to almost \$ 36 billion despite interruptions of 2008 global crisis, 2015 downing of Russian war plane and 2020 pandemic. The extra ordinary relations between the leaders of two countries is no doubt to be the motor of this development.

Table 2. Türkiye's Exports by Countries (\$ Million)

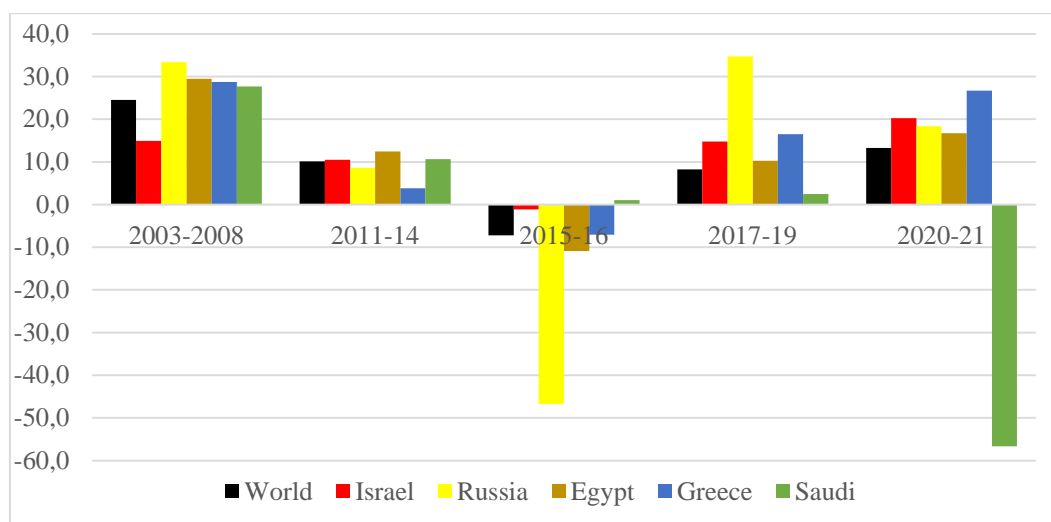
t	2002	2008	2009	2011	2014	2016	2017	2019	2020	2021
WORLD	35.762	132.027	102.143	134.907	166.505	142.606	156.993	180.871	169.658	225.264
Germany	5.835	12.952	9.793	13.951	16.275	14.005	15.119	16.624	15.980	19.318
USA	3.337	4.316	3.250	4.586	6.921	6.627	8.654	8.972	10.183	14.719
UK	3.006	8.159	5.938	8.151	10.216	11.691	9.603	11.281	11.237	13.705
Italy	2.361	7.820	5.890	7.854	7.487	7.583	8.474	9.755	8.083	11.475
Iraq	-	3.917	5.123	8.310	13.154	7.640	9.055	10.224	9.143	11.131
France	2.124	6.618	6.211	6.806	6.860	6.028	6.590	7.953	7.205	9.132
Israel	851	1.935	1.522	2.391	3.063	2.956	3.407	4.464	4.704	6.356
Russia	1.168	6.483	3.190	5.993	6.170	1.734	2.734	4.153	4.507	5.776
UAE	452	7.975	2.897	3.707	4.940	5.406	9.184	3.627	2.828	5.493
Egypt	325	1.426	2.599	2.759	3.442	2.733	2.361	3.511	3.137	4.519
China	266	1.437	1.600	2.466	2.971	2.329	2.936	2.727	2.866	3.663
Greece	583	2.430	1.630	1.553	1.669	1.428	1.663	2.246	1.800	3.117
Ukraine	310	2.188	1.005	1.730	1.856	1.254	1.341	2.157	2.090	2.901
Iran	308	2.030	2.025	3.590	4.142	4.969	3.259	2.738	2.253	2.771
Libya	163	1.074	1.795	748	2.166	906	881	2.070	1.653	2.769
Azerb.	227	1.667	1.400	2.064	3.061	1.286	1.357	1.789	2.086	2.343
Syria	263	1.115	1.422	1.610	2.336	1.323	1.363	1.731	1.596	2.109
Qatar	15	1.074	289	188	366	439	649	1.293	1.037	1.152
S.Arabia	547	2.202	1.768	2.763	3.138	3.175	2.735	3.293	2.508	265

Source: Trademap

During Berlusconi's first term between 2001-2008, Türkiye-Italy succeeded to triple bilateral trade from \$6,3 billion to \$18,5 billion.

After the murder of dissident Khashoggi in 2018 October, Türkiye's-exports to Saudi Arabia fell to \$ 265 million in 2021 from \$3,3 billion in 2019 followed an open hostility that took the form of boycott of Turkish products in Arabian peninsula spreaded to United Arab Emirates as well. The situation is normalized only after the transfer of the murder case files to Prince Salman of Saudi Arabia who is believed to be prime suspect.

Surely the political disputes between Egypt, Israel and Greece and Türkiye act as a brake to further development in mutual trade relations. On the contrary the friendly relations between the leaders of Qatar and Azerbaijan with Türkiye gave opposite positive results.

Figure 2. Türkiye's Annual Exports Change By Some Countries (%)

Source: Trademap

5. CONCLUSION

Competition is the key for success in any field of the life, so in international trade. Usually the countries which are succesfull in world trade are also successful to provide their citizens a better living. They are also successful in health, security and even in sports. This is not an outcome by merely chance. It is a discipline, thought applied by all units of society. For centuries philosophers in every field of sciences have tried to understand and find the best solutions to achieve competition power.

None of the theories, most reputed of which are given above, is sufficient to explain bases of competition power in today's comprehensive relations. Trade is not simply trade overall. Politics, military, geography and moreover personal ambitions and relations of the leaders and governing elite of the countries have excessive impacts on trade. So much so that, it usually cause diversification of trade even with based on unlogical economic grounds.

Unfortunately these unlogical choices of two countries concerned not only affect their trade and relations but affect many others who are in favor or against their decisions. Today's leaders personal choices may trigger chain reactions which might take the world in a direction it doesn't want to be.

For that end, *principle of seperation of power and a strong public surveillance* is believed to be a main determinant in competititiveness.

REFERENCES

- Amit, R. Schoemaker, P. (1993) Strategic asset&organizational rent Strategic Man.Jour. 14(1): p.33-46,
- Barney, J (1991) Firm Resources and Sustained Competitive Advantage Journal of Management,
- Bedir A, (2009) Uluslararası Ticarete Fiyata Dayalı Rekabet Gücü İle Endüstri İçi Ticaret Arası İlişki; Türk İmalat sanayi Örneği, DPT, p.12
- Buckley P.J, Pass C.L, Prescott C., (1988) Measures of International Competitiveness: A Critical Survey, Journal of Marketing Management, 4 No 2, p-175-200
- Çivi, E. , Erol, İ. , İnanlı, T. & D. Erol, E. (2008). Uluslararası Rekabet Gücüne Farklı Bakışlar, Ekonomik ve Sosyal Araştırmalar Dergisi, 1-22.
- DPT (2000) 8.Beş Yıllık Kalkınma Planı, Rekabet Hukuku ve Politikaları Özel İhtisas Komisyonu Raporu, p.1-2
- Dunning, J. (1993), The Globalization of Business, London: Routledge, p.9-11
- Fagerberg, J. (1987) A technology gap approach to why growth rates differ Economics Department, Norwegian Institute of International Affairs, p12-13
- Güleş, H.K, Özilhan D. (2010) Kaynak Temelli Teori Bağlamında Üretim Ve Pazarlama Stratejilerinin İşletme Performansı Üzerine Etkisinin İncelenmesi, Sosyal Ekonomik Araştırmalar Dergisi, 10 (19) , p.477-490

<https://www.rekabet.gov.tr/tr/Sayfa/Mevzuat/4054-sayili-kanun>

Kirzner, I. M. (1973) *Competition and Entrepreneurship*. Chicago: University of Chicago Press,

Krugman P, (1993) *Geography and Trade*, Leuven Univ. and MIT Press, 1991, First MIT Press Paperback edition, p.4-6,

Nobel (2008) Scientific background on the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, Trade and Geography – Economies of Scale, Differentiated Products and Transport Costs, Krugman Increasing Returns and Economic Geography p.8-12

OECD

Glossary

<https://stats.oecd.org/glossary/detail.asp?ID=3163#:~:text=OECD%20Statistics,sales%20and%20For%20market%20share>.

Ozel H, (2012) Ticaretin Serbestleşmesinin Teorik Temelleri ve Yeni Ticari Serbestleşme Teorileri, Kırklareli Ü.İİBF Dergisi Yıl 1. Sayı 1. 2012, s.10

Ozturk N, (2003) Dış Ticaret Kuramında Yeni Yaklaşımlar, Öneri.C.5.S.19, p.121

Porter M, (1990) The Competitive Advantage of Nations March–April 1990 issue of Harvard Business Review,

Porter M,(1990) New Global Strategies for Competitive Advantage, Planning Review, p.5

Protection of Competition Act No:4054

Rugman, A. D’Cruz J (1993) The Double Diamond Model of International Competitiveness: The Canadian Experience, Management International Review, V

Rybczynski, T. (1955) Factor Endowment and Relative Commodity Prices

Seyidoglu H, (2015) Uluslararası İktisat

Stolper, W. Samuelson, P. (1941) Protection and real wages, The Review of Economic Studies,.

Swedberg R, (2003) *Capitalism, Socialism and Democracy*, Routledge, p.81-86

Trademap, 2022, <https://www.trademap.org/Index.aspx>

What is HS Code? <https://www.tradeatlas.com/>

Yüksel E, Sarıdoğan E, (2011) Uluslararası Ticaret Teorileri ve Paul R.Krugman’ın Katkıları, Öneri.C.9.S.35. Ocak 2011. p.199-206.